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FARMERS' NEWSLETTER

Oilseeds



Aug. 78/O-4

With harvesttime right around the corner, now is a good time to plan your marketing strategy for your 1978 soybean crop. To get the best deal on your beans, you must decide on the right time to sell and the best marketing method.

Look at prospective 1978/79 soybean supply and demand, consider your own position, and choose the marketing option best suited to your needs.

Record Demand Seen for Record Crop

The 1978 soybean crop, as of early August, is estimated at a record high 1,765 million bushels--3 percent above 1977. A 9-percent increase in acreage is responsible for the larger crop since estimated yields, at 27.9 bushels per acre, are down 1.8 bushels from those of last year.

Even though the September 1 carryover, estimated at 125 million bushels, is small, 1978/79 soybean supplies are expected to total a record high of 1.9 billion bushels, compared with 1.8 billion bushels last year.

Since soybean demand is expected to continue strong well into the 1978/79 marketing year, supply and demand prospects now point to a close balance, even for the relatively large supply currently indicated.

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U.S. OILSEED PRODUCTION¹

Crop	Area harvested		Yield per acre		Production	
	1977	1978	1977	1978	1977	1978
	Thou. acre					
Soybeans .	57,911	63,268	29.6	² 27.9	1,716	³ 1,765
Cotton-						
seed . . .	13,279	12,282	831	⁴ 747	5,520	⁵ 4,590
Peanuts . .	1,516	1,516	2,457	⁴ 2,565	3,726	⁶ 3,888
Flaxseed .	1,414	926	11.4	² 12.0	16	³ 11
Sunflower-						
seed . . .	2,489	3,225	⁴ 1,245	N.A.	⁶ 2,933	N.A.
Total oil-						
seeds .	76,609	81,217				

¹ August 1 indications. ² Bushels. ³ Million bushels. ⁴ Pounds. ⁵ Short tons. ⁶ Million pounds.

U.S. SOYBEAN PRODUCTION¹

Area	Area harvested		Yield per acre		Production	
	1977	1978	1977	1978	1977	1978
	Thou. acre		Bushels		Thou. bushels	
East Corn						
Belt ² . . .	31,940	34,020	34.6	31.8	1,106,550	1,081,220
West Corn						
Belt ³ . . .	2,665	3,245	30.3	25.6	80,790	83,165
South Central ⁴ . . .	14,490	15,520	22.8	22.7	329,725	352,230
South-						
east ⁵ . . .	5,310	6,710	20.8	22.6	110,440	151,800
Other ⁶ . . .	3,506	3,773	25.3	25.6	88,829	96,609
U.S.						
total . .	57,911	63,268	29.6	27.9	1,716,334	1,765,024

¹ August 1 indications. ² Includes Illinois, Indiana, Iowa, Minnesota, Missouri and Ohio. ³ Includes Kansas, Nebraska, North Dakota and South Dakota. ⁴ Includes Arkansas, Kentucky, Louisiana, Mississippi and Tennessee. ⁵ Includes Alabama, Georgia, North Carolina and South Carolina. ⁶ Includes Delaware, Florida, Maryland, Michigan, New Jersey, New York, Pennsylvania, Texas, Virginia and Wisconsin.

U.S. SOYBEAN SUPPLY AND DEMAND

Item	1976/ 77 ¹	1977/ 78 ²	1978/79 ³
Acreage Million acres			
Planted	50.2	59.1	64.4
Harvested	49.4	57.9	63.3
Yield per acre Bushels			
harvested	26.1	29.6	27.9
Supply Million bushels			
Beginning stocks, Sept. 1 ...	245	103	125±15
Production	1,288	1,716	1,765±100
Total supply	1,533	1,819	1,890±100
Use			
Crushings	790	930	965±50
Exports	564	705	720±50
Seed, feed, residual	76	59	75
Total use	1,430	1,694	1,760±75
Ending stocks, Aug. 31	103	125	130±50
Price Dollars per bushel			
Season avg. farm price ⁴	6.81	5.80	6.00±1.00
U.S. loan rate	2.50	3.50	4.50

¹ Preliminary. ² Estimated. ³ Forecast based on August 1 indications. ⁴ Weighted by monthly marketings.

Prospects look good for some increase in U.S. soybean crushings and exports from the record rates now estimated for 1977/78. Accordingly, total use (including planting seed) will probably approach 1.8 billion bushels which implies continued relatively small carryover stocks.

The United States will be the only major producer-exporter of soybeans this fall since Brazil's 1978 crop was poor. And most of the 1978 Brazilian crop already either has been shipped or contracted for export.

The 1979 Brazilian crop may reach the target of 14 million metric tons, reflecting increased plantings and prospects for better yields than those of the drought-damaged 1978 crop. However, the forecast appears optimistic when compared with this year's crop of 9.5 million metric tons and a

crop of 12.2 million in 1977. In any event, Brazil's 1979 soybean crop will not be available to the world market until next spring.

So with only light competition from Brazil and other oilseed-producing countries during the next several months, demand for U.S. soybeans should be at record levels. After that, the world market for U.S. soybeans may be affected by large Brazilian and Argentine soybean production, by exportable supplies from the Indian peanut and Soviet sunflowerseed crops, and by whether or not the People's Republic of China will continue to import soybeans and soybean products.

Post-harvest Price Advance Likely

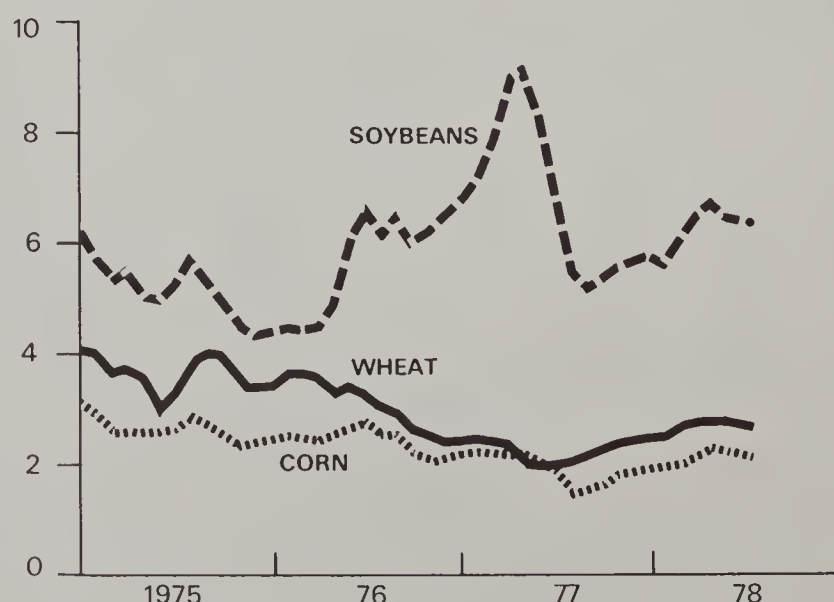
Soybean farm prices generally decline during the flush harvest season for a large crop before showing a post-harvest advance.

Some price weakening has already occurred this summer in anticipation of the big harvest. The monthly average price to farmers dropped from \$6.77 a bushel in May to an estimated \$6 in mid-August.

Although prices may be under pressure this fall, they should still average well above the \$5.28 per bushel of last

PRICES RECEIVED BY FARMERS

\$ PER BU.



SOYBEAN - CORN PRICE RELATIONSHIPS¹

Item	Cash price (Chicago)	Futures prices (Chicago Board of Trade)			
		September	November	March	July
		1978	1978	1979	1979
Soybeans-\$bu. . .	6.40	6.34	6.24	6.40	6.48
Corn-\$bu.	2.17	2.17	² 2.23	2.31	2.40
Price ratio	2.9	2.9	2.8	2.8	2.7

¹ All prices as of August 14. ² December.

October. Futures prices well into next spring are hovering above the \$6 level.

The USDA loan rate for the 1978 soybean crop is \$4.50 per bushel, \$1 above the 1977 level. The 1978/79 season average farm price for soybeans is expected to be around \$6 per bushel--about the same as last year's.

Marketing Strategy: Sell or Store

Getting the best possible return for your 1978 soybean crop will depend upon how you decide to market your crop. You have several alternatives:

- Sell your entire crop at harvest.
- Depending on your situation for storage, sell part of the crop at harvest and store the remainder for pricing later in the season, or
- Store all of your crop and sell at intervals during the 6 or 8 months following harvest. You may obtain a Commodity Credit Corporation loan while your soybeans are in storage.
- If you think current soybean prices look good, forward contract some or all of your 1978 crop.

Hedging: Know the Basis

Be sure to consider your option of hedging--using futures to establish a price for a commodity which you either

own or can commit for production and which will be deliverable at some time in the future. But note that the minimum-sized contract on the Chicago Board of Trade is 5,000 bushels.

To be successful at hedging, you must determine your hedging objective right at the beginning and understand the concept of the "basis."

The basis is the difference between the Chicago futures market price for soybeans and your local cash price.

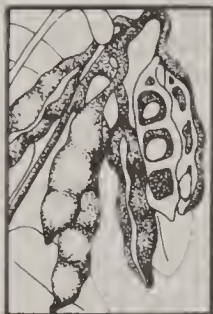
In deciding whether or not to hedge, you must:

- Decide what price level will be acceptable to you.
- Decide which specific monthly futures price you wish to use to determine your own price.
- Determine the basis you expect at the time you plan to sell by comparing local elevator prices and futures prices in previous years.
- Subtract the expected basis from the futures price to determine the expected cash price in your area.
- Make your hedging decision. Then hedge all or part of your soybeans either through a broker or the local elevator.

At this point you must watch the basis. The basis provides a day-by-day yardstick of how well your hedge is working. During the storage season for soybeans, the basis tends to follow predictable patterns.

For example, the difference between the July futures price and the cash price tends to increase at harvest and then begins to progressively decrease throughout the storage season as storage costs are gradually built into the cash price.

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The basis will indicate whether your hedge is merely cutting your loss, allowing you to break even, or helping you come out with an added profit.

For example, if soybeans become more plentiful than expected in your local market area, the basis usually will widen. This would be disadvantageous to you. If soybeans are in short supply in your area, the basis will narrow and would be to your benefit.

Remember: you don't have to deliver soybeans as specified in the contract because you can offset your contract at any time. Simply buy back the futures contract on the day you sell your beans in the local market and apply whatever profit (or loss) is received on the futures transaction to the price received locally.

While you may not get the highest possible price for your crop by hedging, you can often assure yourself of an acceptable price.

Watch for New Developments

Watch for the following USDA reports over the next few months for news on soybean supply and demand prospects:

- Crop Production--September 12, October 11, November 9
- Supply and Demand Estimates--September 13, October 12, November 13
- Soybean Stocks--September 20
- Grain Stocks--October 23
- Preliminary announcements on 1979 feed grain set-aside--November 15

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